

Tutorial Letter 201/1/2018

Long-term Insurance

RSK 3702

Semester 1

Department of Finance, Risk Management and Banking

This tutorial letter contains the suggested solution to the assignments and examination guidelines.

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Please note / important notes:

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1 INTRODUCTION

Dear Student

The purpose of this tutorial letter is to provide you with guidelines on answering the assignment questions as well as some information on the examination paper.

2 GUIDELINES FOR ANSWERING ASSIGNMENT 01**Question 1: Correct answer - option 3**

Refer to section 6.2 of the prescribed study material.

In life insurance companies, intermediaries and employees may find it uncomfortable when assessing risk-based judgement, risks are assessed in terms of the following:

- a Mortality in life insurance.
- b Occupation and medical condition in personal accident insurance.
- c Morbidity in disability insurance and.
- d Medical condition and medical history in hospital and major medical insurance.

Question 2: Correct answer - option 2

Refer to section 2.7 of the prescribed study material.

Restrictions to new policies that are issued in accordance to part 4 of the Regulations to the Long Term Insurance Act include:

- 1 The minimum policy term must be 5 years.
- 2 Increases in premiums are limited to a maximum of 20% per annum. (**sec 2.7**)
- 3 It is possible to have more than one life insured on a policy.
- 4 Policy holders are allowed a loan against the policy in the first 5 years of the policy.

Question 3: Correct answer - option 3

Refer to chapter 6 of the prescribed study material.

Competition is an important aspect to be considered by the underwriter. Competition will ensure that the life policy ...

- a is equitable
- b provides benefits that meets the need of the buyer
- c delivers prompt service <<Author, please check>>
- d premium, to be charged for the cover, is competitive

Question 4: Correct answer - option 4

Refer to section 7.3 of the prescribed study material.

The **correct** statement is:

Policy loans are paid out with money retained in the reserve account of the life insurer.

Question 5: Correct answer is option 3

Refer to section 11.6.7 of the prescribed study material.

The spouse of the persons mentioned in a, b and c, in section 11.6.7, are also disqualified from receiving any benefit from the will.

Question 6: Correct answer - option 3

Refer to section 6.4.3 of the prescribed study material.

The **correct** statement is:

Proper underwriting helps guard against anti-selection in life insurance.

Question 7: Correct answer - option 2

Refer to section 10.5 of the prescribed study material.

One of the options they might consider is to ...

enter into a buy and sell agreement.

Question 8: Correct answer - option 1

Refer to section 2.9.3 of the prescribed study material.

Ingrid will be able to claim the proceeds of the policy, despite the conditions of the will.

Question 9: Correct answer - option 2

Refer to section 3.1.2 of the prescribed study material.

Credit life insurance is in the category of term insurance.

Question 10: Correct answer - option 4

Refer to section 5.4.4 of the prescribed study material.

Health insurance products are underwritten based on the applicant's past and current medical history and the cover may be declined; while medical schemes have very little

scope to underwrite an applicant and acceptance is compulsory.

Question 11: Correct answer - option 4

Refer to section 11.7 of the prescribed study material.

The **correct** statement is:

The adopted parent has a claim against the intestate estate of his/her adopted child.

Question 12: Correct answer - option 2

Refer to section 11.6.3, chapter 3, of the prescribed study material.

A person, to whom the deceased has left a specific item or sum of money, as a specific mention in his/her will, is referred to as a legatee.

Question 13: Correct answer - option 4

Refer to section 10.7 of the prescribed study material.

Contingent liability is a plan that can only safeguard the estate of deceased director.

Question 14: Correct answer - option 3

Refer to section 3.3.5 of the prescribed study material.

Income protection is in the category of disability income benefit. It is sometimes referred as permanent health insurance (PHI), income continuation, income security insurance, etcetera.

Question 15: Correct answer - option 1

Refer to section 3.3 of the prescribed study material.

An actuarial valuation of a life insurance company is to test the solvency of the life office.

3 GUIDELINES FOR ANSWERING ASSIGNMENT 02**Question 1 (10 marks)**

Mqwathi wants to buy a life policy and is not certain whether or not to also buy the supplementary or risk benefits as part of the policy. Mqwathi is currently 40 years old and has been working as a truck driver for the last 15 years and is intending to retire at age 60.

Explain five (5) supplementary benefits suitable for Mqwathi.

Refer to section 3.3.5 of the prescribed study material.

Students are expected to discuss any five (5) of the following benefits for two marks each:

1. Accident benefits

2. Disability or health insurance benefits
 - (i) Capital disability benefits
 - (ii) Major medical expenses
 - (iii) Waiver of premium
 - (iv) Dread disease or critical illness
 - (v) Terminal illness benefits
 - (vi) Long-term care
 - (vii) Disability income benefits

3. Guaranteed insurability benefits

Question 2 (10 marks)

Mvundle has terminated a contract of employment and will be leaving next month. Mvundle heard that one could preserve the pension benefit until one reaches the time of retirement.

Explain the advantages that are enjoyed by a person who transfers from a pension or provident fund to an equivalent preservation fund.

Refer to section 9.4 of the prescribed study material.

Students are expected to discuss following advantages/benefits for two marks each:

1. No tax liability on transfer
2. One withdrawal from the preservation fund is permitted

5 GUIDELINES FOR THE EXAMINATION

A two-hour, 70 marks, fill-in exam paper will be set for the May/June examinations. The mark you obtain out of 70 will be converted to a percentage mark.

The paper comprises three sections:

SECTION A comprises questions that count a total of 30 marks. This section has 10 multiple-choice questions, of 1 mark each, and 10 true/false questions, of 2 marks each. The true/false questions must be motivated – no marks will be allocated to a true/false answer that does not include a proper motivation. Students are expected to revise all the learning units in order to prepare for this section of the exam.

SECTION B comprises questions that count a total of 40 marks. **All the questions in this section must be answered.** In addition to revising all the learning units, students need to focus on learning units 2, 5 and 9.

General guidelines

The following general guidelines apply to both the May/June and October/November examination papers:

- Section A must be answered in the examination script as instructed. You will not have to complete a mark-reading card for this section.
- Answer the questions in section B in **point format**. Underline or highlight the main facts. Make use of headings and subheadings in your answers.
- **Never leave open spaces.** Guess the answer if you have to – you may guess right. Remember if you are a borderline case, we might try to find a mark or two. If there are open spaces this is impossible.
- **Include sufficient facts in an answer.**
When a question requires you to “name and discuss for 10 marks”, it normally expects you to list at least five facts and give a brief explanation of or elaboration on each fact. When a question asks you to “name and briefly explain **three** factors for 10 marks”, it requires you to list the three factors and give a more detailed explanation of each. A discussion question should be answered in point form and facts should be highlighted - in this way you can insure that you include sufficient facts in the answer. Make use of headings and subheadings in your answer.
- **Make sure you interpret the questions correctly.**
When you read a question, make sure that you underline the key words in the question. In the answer itself, ensure that you at least refer to those key words and base your answer on them.
- **Do not include too much detail in the answers and repeat facts**
Do not write more than two pages for 10 marks. You will run out of time and will not be able to complete the paper. Be careful not to repeat facts - you can prevent this by answering the questions in point form and highlighting key words and concepts.
- **Make sure the facts included are complete.**
Students tend to include only a certain part of a fact. For example: Where a policy has acquired a surrender value, the insurer will use this to keep the benefits going for as long as possible, **if the premiums are unpaid**. Without the part in bold, the fact is incomplete. Where you are required to list facts, your answer should still be

complete, make sense and be self-explanatory.

6 CONCLUDING REMARKS

We trust that you have found the study of this module both interesting and rewarding up to this stage. We wish you all of the best with your preparation for the examination. Please do not hesitate to contact us if you have any difficulties with the study material for this module.

Best wishes

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MR LP MAMARO

DEPARTMENT OF FINANCE, RISK MANAGEMENT AND BANKING

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